

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON GREATER TZANEEN LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Greater Tzaneen Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Accumulated surplus

6. The Standards of Generally Recognised Accounting Practice, GRAP 3: *Accounting Policies, Changes in Accounting Estimates and Errors* requires that an error must be adjusted for retrospectively and that the opening balances be restated for the earliest period presented. The correction of an error on prior year figures emanating from water and sanitation transfers, was not accounted for in the statement of changes in net assets, and note 30 to the annual financial statements. Furthermore, the municipality has not complied with disclosure requirements as required in terms of this standard

Qualified Opinion

7. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Greater Tzaneen Local Municipality for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the MFMA.

Emphasis of matter

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unauthorised expenditure

As disclosed in note 35 to the financial statements, unauthorised expenditure amounting to R21,7 million was incurred by the municipality, as money earmarked for conditional grants was utilised to fund operational expenditure.

Going concern

As disclosed in note 44 to the financial statements, current liabilities exceeded current assets by R33,6 million for the year ended 30 June 2009. Furthermore, money received from conditional grants has also been utilised to fund operational expenditure. These conditions, along with other

matters, point to the existence of a material uncertainty that may cast significant doubt on the Sentity's ability to continue as a going concern.

Restatement of corresponding figures

9. As disclosed in note [xx] to the financial statements, the corresponding figures for the financial year ended 30 June 2009 have been restated as a result of an error discovered during 2010 in the financial statements of the municipality at, and for the year ended, 30 June 2009.

Additional matters

10. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

11. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

Predetermined objectives

13. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory requirements

Internal auditing of performance measurements

14. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Timeliness of reported performance information

15. Contrary to Section 74 and 126 of the MFMA, the municipality did not submit its annual performance report together with the financial statements to the Auditor-General as required by 31 August 2010.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?
The following audit findings relate to the above criteria:

Planned and reported performance targets not specific/measurable and time bound

16. The key performance indicators were not specific in clearly identifying the nature and level of performance, not measurable and do not indicate the specific deadline for delivery. This was applicable to a percentage of households who had access to basic water, sanitation and electricity.
17. Some selected objectives of the key performance indicators set out in the service delivery and budget implementation plan (SDBIB) does not include performance targets.

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

Incomplete reporting on all predetermined objectives, indicators and targets

18. The annual performance report submitted for audit did not include the annual and actual targets for the following key performance indicator (KPIs): A percentage of households who had access to basic water, sanitation and electricity.
19. The municipality has not reported on all of its key performance indicators. Planned performance indicators as per SDBIB that on the following programmes were not reported in the annual report: accessible services, electricity infrastructure, housing, water and sanitation and roads and storm water infrastructure.

**Compliance with laws and regulations
(MFMA)**

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in unauthorised expenditure

20. Expenditure was not incurred in accordance with the requirements of the conditions of the grants as funds earmarked for grants were utilised for operational purposes resulting in unauthorised expenditure as defined in section 1 of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

21. Contrary to section 122(1) of the MFMA the municipality did not prepare financial statements that fairly present its state of affairs as material misstatements were corrected during the audit.

INTERNAL CONTROL

22. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

23. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

• Leadership

Oversight responsibility

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Action to mitigate risks

Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

• Financial and performance management

Quality, reliable annual financial statements

The financial statements were subject to material amendments resulting from the audit. The annual performance report was not submitted for auditing as per the legislated deadlines.

Adequate systems

General information technology controls are not designed to maintain the integrity of the information systems and the security of the data.

- **Governance**

Audit Committee

The audit committee did not in all instances fulfil its responsibilities by advising the council on the matters set out in the MFMA.

Auditor-General

Polokwane

30 November 2010



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence